SWEETENER USERS ASSOCIATION

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Submission

On behalf of the

SWEETENER USERS ASSOCIATION

To the

U.S. INTERNATIONAL TRADE COMMISSION

Pursuant to

The Economic Effects of

Significant U.S. Import Restraints

Investigation No. 332-325

February 22, 2017

The Sweetener Users Association (SUA) appreciates the opportunity to present information on the economic impact of U.S. sugar program import restraints on the U.S. sugar and sweetener sector and the food and beverage industries that use the majority of these key food ingredients. SUA's membership includes a broad range of food and beverage manufacturers, along with the trade associations that represent these firms. Our members believe that these import restraints have had significant negative impacts on their businesses and on their customers as a result of higher than necessary prices and other market distortions created by these overly protectionist government policies.

Overview

SUA has frequently provided testimony and other evidentiary material to the Commission on the trade distorting nature of the U.S. sugar program and the adverse economic impacts it has on consumers and on food and beverage manufacturers. These negative impacts of the underlying policies persist and have now been exacerbated by the suspension agreements negotiated between

the United States and Mexico in connection with the antidumping and countervailing duty cases filed against Mexico by the domestic sugar industry. The key points that SUA recommends for consideration by the Commission are the following:

- The sugar program has been mostly impervious to trade liberalization efforts for decades. In contrast, barriers for sugar-containing products (SCPs) have been greatly reduced and net imports of sugar in SCPs are expected to reach one million tons this year, about 8 percent of U.S. sugar consumption. This has hurt U.S. manufacturers.
- U.S. refined sugar prices remain unnecessarily high, having been further boosted by the de facto increase in the U.S. market price support level under the suspension agreements. This has increased the harm to consumers and U.S. manufacturers.
- Employment in businesses manufacturing sugar-containing products continues to decline due to reduced competitiveness against other domestic food products, and increased net imports of sugar-containing products from other countries.
- Sugar users and cane sugar refiners remain unable to source adequate quantities of raw or refined sugar from the most efficient producers around the world.
- And more broadly, the sugar import restraints continue to have negative economic welfare effects on the U.S. economy.

At the Commission's hearing for this investigation on February 9, 2017, American Sugar Alliance (ASA) representatives tried to argue that one can no longer hypothesize unilateral elimination of U.S. sugar import restraints, citing the trade liberalization with Mexico that began in 2008. They ignored the inconvenient fact that as part of NAFTA, Mexico agreed to maintain the same level of protection against sugar imports as the United States. It was not an opening to the world sugar market.

Below we elaborate on our key points above, and also address other flaws in the ASA submission for this investigation.

Limited results from past sugar trade liberalization efforts

The United States government has pursued bilateral and multilateral trade liberalization in various agreements for decades with the objective of making a net positive economic impact on the nation. While some domestic industries assert they are adversely affected by tariff reductions or loss of other protections against competition from imports, long-established economic theory holds that trade liberalization increases the efficiency of the economy and improves national economic welfare.

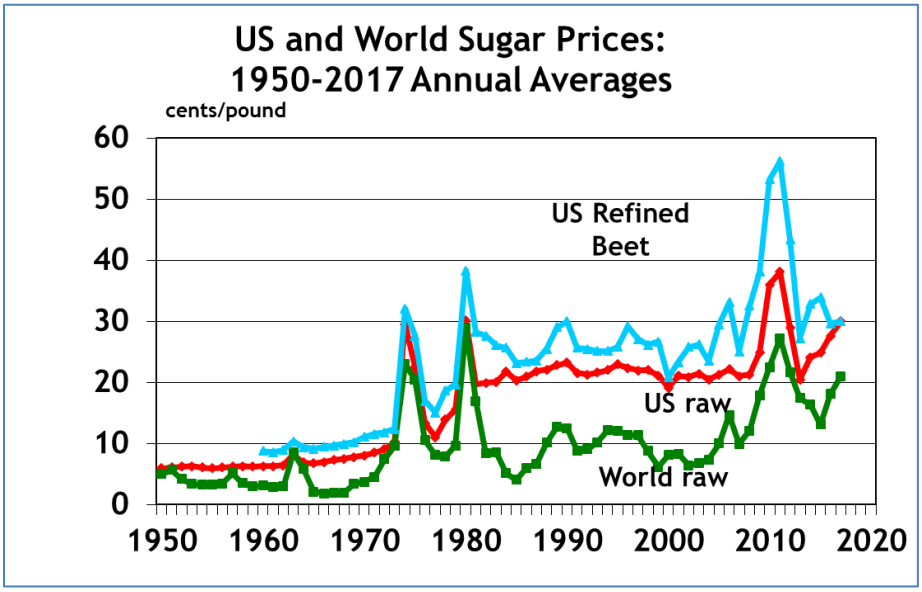
In this context, the intensely protectionist U.S. sugar program has clearly reduced the potential positive economic impacts of trade agreements implemented over the last 25 years. Regardless of the party in the White House, the sugar industry has urged the administration and U.S. trade negotiators to hold fast against any significant concessions on foreign access to the domestic sugar market. Unfortunately, once the United States tells other countries in trade agreement negotiations

that the sugar program is sacrosanct, those countries are then free to hold out against market access concessions on their own specially protected agricultural sectors. The result is that the other 98 percent of U.S. agriculture gets less access to foreign markets than it otherwise might have gained. The effect also spills over into the services and manufacturing sectors.

Sugar policy is not the only villain in this story, but it tends to be one of the ringleaders, and is always featured in the USITC's periodic studies of the effects of U.S. import restraints.

The degree and duration of U.S. protection of its domestic sugar crop producers and processors is readily apparent in Figure 1, which compares the price of raw sugar in the United States to the world market price since the 1950s. The high threshold for raw sugar also supports the price of refined sugar in the domestic market, which is what consumers and food and beverage manufacturers actually pay.

Figure 1



Source: http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx

The Uruguay Round was an important development from the sugar perspective because the United States agreed to tariff-rate quotas (TRQs) of 1,117,195 metric tons, raw value (MTRV) for raw sugar and 22,000 MTRV for refined sugar. This represented 13.5 percent of domestic disappearance in 1993/94. The trade agreements implemented since the Uruguay Round include the North American Free Trade Agreement (NAFTA), and a combination of the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) and a subset of the various U.S. bilateral agreements.

The NAFTA negotiations were also underway while the Uruguay Round talks were in their final stages and the agreement actually took effect a year earlier, at the beginning of 1994. NAFTA provided for the eventual full liberalization of sugar and corn sweetener trade between Mexico and

the United States after long phase-in periods over which prohibitive tariffs were phased out in a linear fashion – 10 years for corn sweeteners and 15 years for sugar. NAFTA incorporated the results of an existing bilateral agreement between Canada and the United States that had no sweetener trade provisions. Thus, Canada has only its WTO quota of 10,300 MTRV of refined sugar. Mexico subsequently instituted a number of measures to prevent U.S. high fructose corn syrup (HFCS) from displacing its domestic sugar, but these were all eventually ruled illegal. Full liberalization in sweetener trade between Mexico and the United States was finally achieved on January 1, 2008.

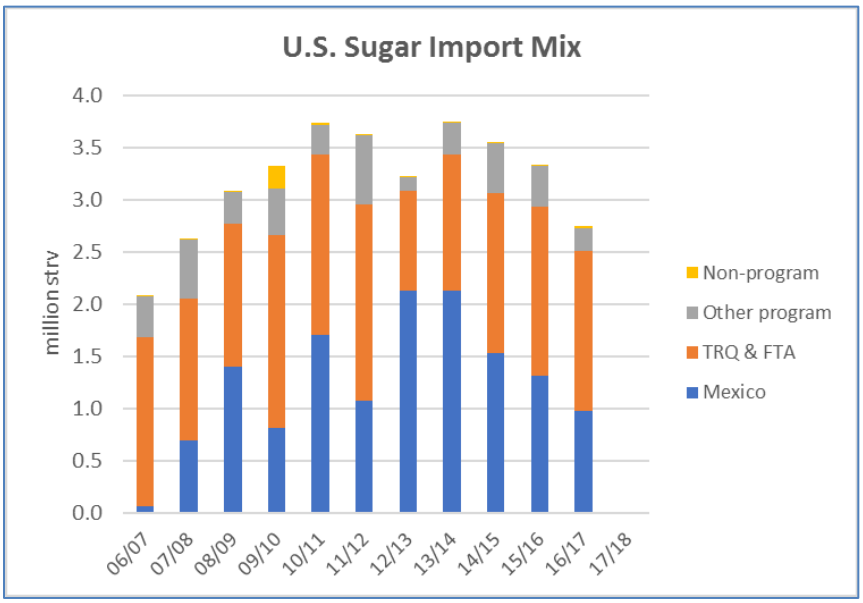
After the long NAFTA phase-in period, free trade between the two neighboring countries proved to be a more significant development for the U.S. sugar market than the Uruguay Round agreement. Over the next six marketing years, 2008/09 to 2013/14, U.S. sugar imports from Mexico averaged almost 1.4 million MTRV, representing 13.1 percent of the higher disappearance during that period. A significant portion of those imports went to coastal cane sugar refineries, but some also came in as fully refined sugar or slightly less processed forms suitable for direct use (i.e., estandar).

This period of free sugar trade with Mexico came to an end in 2014 with the threatened imposition of dumping and countervailing duties against Mexican sugar and the subsequent negotiation of suspension agreements that in effect assigned Mexico an annually variable TRQ. These suspension agreements have made it much more difficult for cane refiners to access raw material from Mexico.

The other group of FTAs collectively provides access to about 200,000 MTRV of sugar, a quantity that rises about 15,000 MTRV annually. This includes the DR-CAFTA countries (Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), as well as the bilateral FTAs with Colombia and Panama. There are six other FTAs with countries that either produce no sugar or do not have an exportable surplus: Bahrain, Chile, Morocco, Oman, Peru and Singapore. And there are another four bilateral agreements with no U.S. sugar market access provisions: Australia, Israel, Jordan, and Korea. The ultimate effect of negotiating FTAs with these 18 countries is access to a negligible 1.8 percent of the U.S. sugar market.

The relative importance of the various categories of sugar imports in recent years is shown in Figure 2. The "other program" category is for sugar that enters for refining and re-export either as refined sugar or in sugar-containing products. The non-program category is sugar for which importers pay the normally prohibitive duty of about 16 cents per pound. This occurred only in 2009/10, although some analysts speculate that we could see such imports again before the current marketing year ends. Total sugar imports into the U.S. market averaged about 3.4 million short tons, raw value (3.1 million MTRV) over the six-year period of free trade with Mexico.

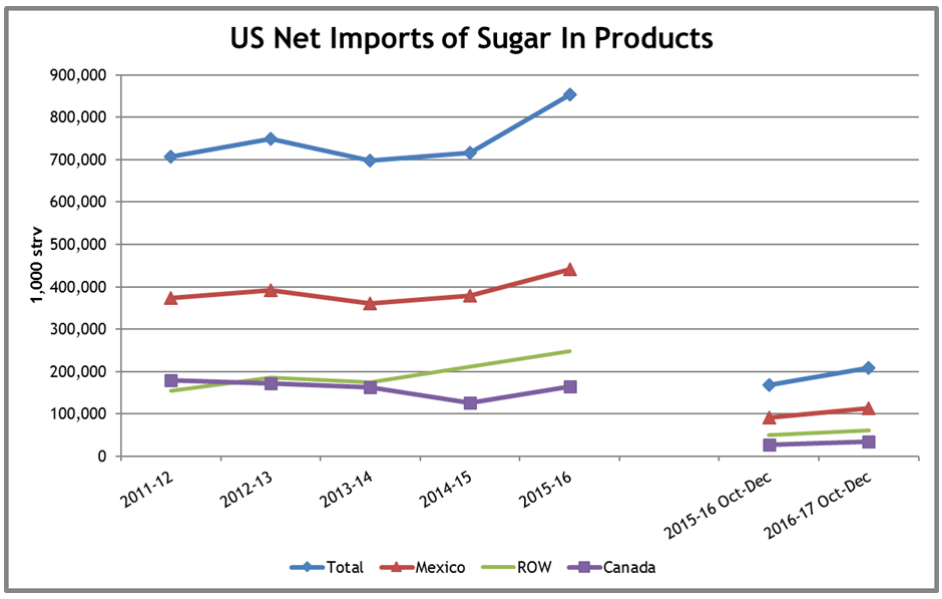
Figure 2



Source: http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx

While U.S. sugar import restraints remain quite trade distorting, tariff reductions for a wide range of SCPs have stimulated both imports and exports. Up to the mid-1990s, the United States was a net exporter of sugar in SCPs. Since then, imports have grown faster than exports, so that by 2015/16, net imports of sugar in products totaled 854,000 short tons, raw value (strv), up from 716,000 strv the prior year (Figure 3).

Figure 3



Source: Agralytica, "SCP Trade 1st Quarter 2016/17", February 14, 2017

Based on trade flows during October through December 2016, net imports of sugar in SCPs are projected to exceed 1,000,000 strv during 2016/17.[1] That would represent almost 8 percent of domestic sugar consumption. The high domestic sugar prices and a strong U.S. dollar have made foreign food and beverage manufacturers more competitive in the U.S. market, at the expense of domestic firms that use sugar as an ingredient.

Domestic policy situation

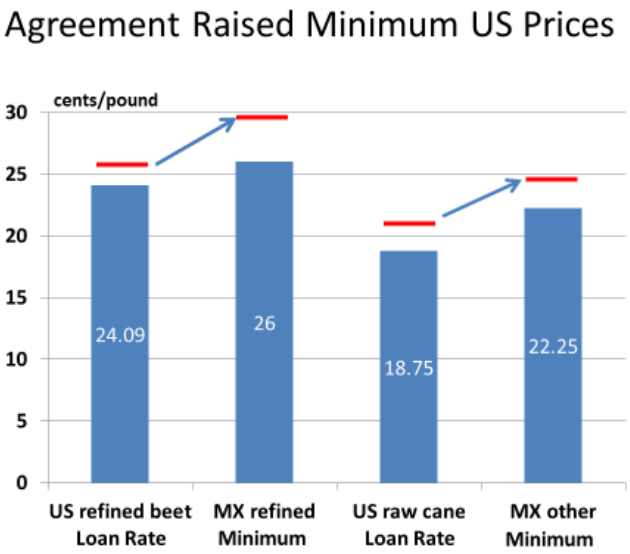
The 2008 Farm Bill was the first in a long time to make the program markedly worse for consumers and manufacturers. It raised the raw sugar loan rate 4 percent to 18.75 cents, and the refined sugar loan rate by 5 percent to 24.09 cents. It set marketing allotments at a minimum of 85 percent of consumption and made them permanent. It required that the TRQs be initially set at the WTO minimum at the beginning of the marketing year and prohibited the Secretary of Agriculture from increasing the TRQs before April 1, midway through the marketing year. Finally, it forbade USDA from selling any forfeited sugar for food use and established the Feedstock Flexibility Program to divert any surplus sugar to ethanol production.

These changes incentivized both U.S. and Mexican sugar producers to expand production, ultimately depressing market prices in FY 2013, and leading to significant government expenditures in FY 2013 and to the filing of the antidumping and countervailing duty cases in 2014 (shortly after the 2014 Farm Bill extended the sugar program without changes).

The suspension agreements ultimately agreed to by Mexico and the United States in December 2014 set minimum export prices for Mexican sugar at 22.25 cents for sugar less than 99.5 polarization, 19% above the U.S. raw sugar loan rate contained in the 2014 Farm Bill, and 26 cents for sugar with polarization equal or greater to 99.5. This raised the effective market support prices for sugar by more than 3 cents per pound, even though Congress had declined to do so earlier that year in the Farm Bill. This is illustrated in Figure 4, with red lines indicating the effective support for the Number 16 raw sugar price and the f.o.b. refined beet sugar price.

[1] Agralytica, "SCP Trade 1st Quarter 2016/17", February 14, 2017

Figure 4



The quantitative limits imposed on imports of sugar from Mexico have disrupted the domestic sugar marketing system that had evolved after limits on imports from Mexico were removed in 2008. Some U.S. food and beverage manufacturers found that both refined and estandar sugar from Mexico could be used in their products without additional processing. In other cases, businesses were established to melt and clean up estandar in a low-cost refining process to produce liquid sugar. Mexican mills receive higher prices for sales through these channels than for sales to traditional cane sugar refiners, and this has left refiners starved for raw sugar supplies.

Efforts to renegotiate the suspension agreements to address this situation and other problems have been ongoing, but SUA is not optimistic that the eventual outcome will provide any relief to U.S. consumers or food and beverage manufacturers if the previously proposed modifications to the suspension agreements are not changed significantly by the new Administration to allow adequate supplies of sugar at reasonable prices.

Supply problems have also persisted in the realm of raw sugar imports under the WTO TRQs. Many of the countries assigned quotas in 1982 based on their exports to the United States in the 1975-1981 period either no longer produce sugar, do not have an exportable surplus, or do not find it profitable to export to the United States for one reason or another. Even after mid-year reallocations of the TRQs by the U.S. Trade Representative, WTO quota fulfillment has been poor. Annual shortfalls under the raw sugar TRQ have averaged 130,536 MTRV over the past 3 years.

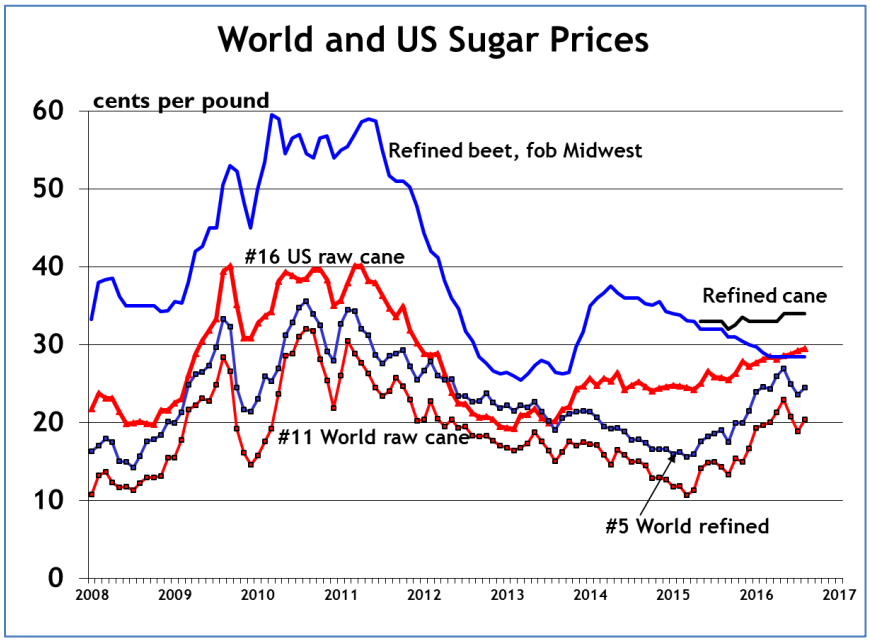
The consumer cost of the program

The failure of U.S. sugar policy to provide "adequate supplies at reasonable prices" has imposed significant costs on consumers. If one compares refined sugar prices in the United States to the estimated cost of importing refined sugar from the world market, the additional annual cost to U.S. consumers have been in the billions of dollars.

Figure 5 shows monthly average market prices for raw and refined sugar in the United States and the world market. For much of the 2014-2016 period, the spread between U.S. and world refined prices was extremely wide, i.e. 20 cents per pound or more. Since mid-2016 it has varied from 7-10 cents for refined cane sugar.

Historically, one was always able to use the refined beet sugar price as the representative price for both beet and cane sugar because the difference between the two was quite small. However, that is no longer possible because a significant gap has opened up between the two as some food and beverage manufacturers have chosen to purchase only cane sugar because it is not produced from a genetically modified raw material. The price difference between domestic refined beet and cane during the early weeks of 2017 has been six cents or more per pound, depending on location.

Figure 5



The table on the next page details the cost to U.S consumers over the past 13 years. Under the 2002 Farm Bill, the sugar program cost consumers an average of $2.16 billion per year. The 2008 Farm Bill pushed the average annual consumer cost up to $2.87 billion, and it exceeded $4 billion in two of those years. For the first three years under the 2014 Farm Bill, costs averaged $2 billion.

Table 1

Comparison of Consumer Cost of US Sugar Policy Under 2002,2008 and 2014 Farm Bills

	2002 Farm Bill		2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	6-year Average
						cents per pound			
A	US wholesale refined price		27.0	23.7	25.6	36.0	25.7	29.9	28.0
B	World refined price		10.1	10.3	12.5	18.3	14.9	15.5	13.6
C	Transport cost		3.0	3.0	3.0	3.0	3.0	3.0	3.0
D	Delivered to US	B+C	13.1	13.3	15.5	21.3	17.9	18.5	16.6
E	Price difference	A-D	13.9	10.4	10.2	14.7	7.8	11.3	**11.4**
						million short tons			
F	US consumption: raw		10.0	10.2	10.0	10.2	9.9	10.5	10.1
G	US consumption: refined	F/1.07	9.4	9.5	9.4	9.5	9.3	9.8	9.5
						billion dollars			
H	Consumer cost difference	E*.02*G	2.60	1.98	1.90	2.79	1.45	2.22	**2.16**

	2008 Farm Bill		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	6-year Average
						cents per pound			
A	US wholesale refined price		35.9	50.3	55.8	49.3	28.8	30.7	41.8
B	World refined price		18.9	26.5	32.7	27.8	22.8	20.7	24.9
C	Transport cost		3.0	3.0	3.0	3.0	3.0	3.0	3.0
D	Delivered to US	B+C	21.9	29.5	35.7	30.8	25.8	23.7	27.9
E	Price difference	A-D	14.0	20.8	20.1	18.5	3.0	7.0	13.9
						million short tons			
F	US consumption: raw		10.4	10.9	11.2	11.1	11.5	11.8	11.2
G	US consumption: refined	F/1.07	9.8	10.2	10.5	10.4	10.7	11.0	10.4
						billion dollars			
H	Consumer cost difference	E*.02*G	2.74	4.24	4.21	3.84	0.64	1.54	**2.87**

	2014 Farm Bill		2014/15	2015/16	Estimate 2016/17	2017/18	2018/19		3-year Average
						cents per pound			
A	US wholesale refined price		34.9	30.6	32.5				32.6
B	World refined price		17.1	20.9	24.0				20.7
C	Transport cost		3.0	3.0	3.0				3.0
D	Delivered to US	B+C	20.1	23.9	27.0				23.7
E	Price difference	A-D	14.8	6.6	5.5				9.0
						million short tons			
F	US consumption: raw		11.9	12.0	12.0				11.9
G	US consumption: refined	F/1.07	11.1	11.2	11.2				11.2
						billion dollars			
H	Consumer cost difference	E*.02*G	3.29	1.48	1.23				2.0

Source: Agralytica analysis of USDA Economic Research Service Data

This artificially inflated cost to consumers is all made possible by the tariff wall. The difference between the zero tariffs on sugar imported under TRQs or FTAs and sugar outside of those categories is approximately 16 cents per pound. This tariff wall is the protective barrier that allows prices in the United States to escalate far above the legislated price support levels. When imports are tightly restricted, domestic sellers are able to increase their asking prices to levels that food and beverage manufacturers consider extremely unreasonable.

Higher ingredient costs eventually have to be covered in the wholesale and retail prices for the affected products. And when sugar prices decline, manufacturers are able to reflect that. Sugar producer representatives like to claim that consumers would not benefit from lower sugar prices. However, that just reveals their failure to appreciate how food and beverage markets work. There is intense competition among brands and between categories like salty snacks and confectionery. When ingredient costs are lower, consumers benefit through specials, increases in unit sizes, and price reductions.

Sugar is no different than any other input, whether it be a physical ingredient or a service like labor or transportation. If manufacturers could ignore changes in sugar costs, they could ignore changes in all input costs and price their products without regard to those costs, and become immensely profitable. Yet this does not happen in the real world. Even though the sugar content of many products is quite low, and changes in the other cost components can outweigh what happens with sugar, all of those sugar cost differentials add up to billions of dollars every year in additional expenses for consumers and manufacturers.

The sugar program is a job killer

Table 2 separates the various food and beverage industries into sugar-using and non-sugar-using groups. All of these sectors use some sugar, but there are distinct differences in scale of use. Since 1997, there has been a 17.2 percent decline in employment in the sugar-using sector, a loss of over 123,000 jobs. About 600,000 jobs remain under threat. In contrast, there has been a 5.7 percent increase (49,537 jobs) in the non-sugar-using sectors. (Employment also fell 15 percent in cane and beet sugar manufacturing.) These figures are from the Department of Commerce's Economic Census and Annual Survey of Manufactures.

Table 2

Employment in U.S. Food and Beverage Industries				
Industry	**1997**	**2015**	**Absolute change**	**% change**
Sugar-using industries				
Breakfast cereal mfg	14,396	12,214	-2,182	-15.2%
Choc. & confec. Mfg. from cacao beans	9,946	6,514	-3,432	-34.5%
Confec. Mfg from purchased choc.	32,871	33,301	430	1.3%
Nonchocolate confectionary mfg.	25,512	18,427	-7,085	-27.8%
Frozen food mfg.	94,192	86,636	-7,556	-8.0%
Fruit & veg canning, pickling., & drying	97,384	75,882	-21,502	-22.1%
Ice cream & frozen desert mfg.	19,786	18,008	-1,778	-9.0%
Bread & bakery product mfg.	222,596	172,449	-50,147	-22.5%
Cookie, cracker & pasta mfg	64,401	51,778	-12,623	-19.6%
Snack food mfg	46,609	50,808	4,199	9.0%
Flavoring syrup & concentrate mfg	6,243	7,498	1,255	20.1%
Soft drink & ice mfg	83,256	60,199	-23,057	-27.7%
Sub-total	**717,192**	**593,714**	**-123,478**	**-17.2%**
Other food & beverage				
Animal food mfg.	46,651	44,179	-2,472	-5.3%
Flour milling & malt mfg	17,877	18,624	747	4.2%
Starch & veg fats & oils mfg	26,970	22,818	-4,152	-15.4%
Dairy product (except frozen) mfg	112,082	113,478	1,396	1.2%
Animal slaughtering & processing	464,991	477,054	12,063	2.6%
Seafood product prep & packaging	40,763	32,005	-8,758	-21.5%
Tortilla mfg	11,303	17,137	5,834	51.6%
Coffee & tea mfg	12,895	15,379	2,484	19.3%
Seasoning and salad dressing mfg	26,055	32,108	6,053	23.2%
All other food mfg	56,886	68,814	11,928	21.0%
Breweries	34,251	34,006	-245	-0.7%
Wineries	18,193	40,468	22,275	122.4%
Distilleries	6,417	8,801	2,384	37.2%
Sub-total	**875,334**	**924,871**	**49,537**	**5.7%**
Sugar manufacturing				
Sugar manufacturing	16,547	14,073	-2,474	-15.0%
Total food & beverage	**1,609,073**	**1,532,658**	**-76,415**	**-4.7%**

Source: U.S. Census Bureau, Economic Census & Annual Survey of Manufactures

The sugar industry, as represented by ASA, commissioned a study based on Department of Labor statistics that purported to show no decline in the sugar-using industry. However, the study did not provide any actual job data, just indexes, so it has proved impossible to reproduce the results. It suffered from some additional shortcomings:

- The study did not include beverages.
- It defined all sectors that bought any sugar at all as sugar-using, including industries like pet food, butter and cheese, invalidating any comparison between businesses dependent on sugar and those that are not
- Even after commenting on the low sugar content of many foods in its study, it defined them as sugar-using anyway.

The roughly 600,000 jobs that remain in the sugar-using businesses continue to be threatened by the sugar program. Note that no multipliers are involved in the above table. These are direct jobs in these businesses. The 123,478 jobs that have been lost are more than three times the 39,958 direct jobs that ASA claims for the sugar industry.

Unnecessarily high U.S. sugar prices have been an important reason for the decline in employment in sugar-using businesses. Their products are made less competitive with other foods and beverages, and with products from foreign competitors in the same businesses. The increase in net imports of sugar in SCPs documented above is attributable to the difference in sugar prices in the United States.

The ASA submission for this investigation claimed that U.S. SCP exports would not increase with a reduction in domestic sugar prices because the sugar program already provides for use of world market priced sugar in these products. But that program only covered 250,000 of the 729,000 metric tons of sugar exported in products in 2015/16. Most manufacturers do not or cannot make use of that program, and would benefit from lower sugar prices.

Equally important, narrowing the gap between U.S. and world sugar prices would make domestic manufacturers more competitive with imports. Replacing imports with products made in the United States would clearly add to employment in the affected industries.

Impact on the cane sugar refining industry

The sugar program limits U.S. cane sugar refiners' imports of raw sugar, putting refiners at a competitive disadvantage relative to producers of beet sugar. The failure of most recent FTAs to increase access to the U.S. sugar market as consumption has risen has tended to worsen the situation for refiners.

Now the terms of the U.S.-Mexico suspension agreements have further complicated the ability of U.S. cane refiners to source sufficient amounts of raw cane sugar to maximize refining capacity

utilization. This situation, resulting from overly constraining sugar policies, could ultimately result in the closure of one or more domestic refineries.

These agreements create a powerful incentive for Mexico to supply as much estandar sugar as possible in the higher-priced category with approximately a 4-cent-per-pound premium to the minimum price for Mexican raw sugar. Sold for direct consumption, this sugar competes directly with the final product sold by cane refiners. This is making it unaffordable as a feedstock for U.S. cane sugar refineries.

It is SUA's position that a viable and competitive U.S. cane refining sector is fundamental to America's food security, and is especially critical to the competitiveness of those segments of the U.S. food industry that use sugar. These industries employ some 600,000 Americans. Cane refineries serve as the shock absorber for the domestic sugar market when there is a poor sugar beet crop or some other disruption to supplies. It is essential that cane sugar refiners have sufficient access to imported raw sugar to meet growing demand for their products.

Conclusion

The import restraints associated with U.S. sugar policy continue to distort both trade and the domestic sugar market, and result in economic welfare losses for the nation as a whole. The Sweetener Users Association has supported every U.S. effort at trade liberalization and will continue to do so. The members of the association believe that fairer and freer trade is beneficial to their industries and to the nation's economy. While incremental bilateral and multilateral efforts to make the U.S. market more open to trade are certainly helpful, only sugar policy reform and renegotiation of the suspension agreements with Mexico can significantly ameliorate the negative economic effects of current U.S. sugar policy.

Submitted on behalf of the Sweetener Users Association (SUA)

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